

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
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R 141616Z DEC 76  
FM AMEMBASSY CAIRO  
TO SECSTATE WASHDC 9720

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 17255

EXDIS

E.O. 11652: GDS  
TAGS: EFIN, EG  
SUBJECT: MIN ECON COMPLAINT ABOUT IMF PRESSURE

SUMMARY: MINECON INFORMS THAT GROUP OF ECONOMIC  
MINISTERS, HEADED BY KAISOUNI, HAS BEEN WORKING  
ON GOVERNMENT AND FX BUDGETS FOR 1977 IN ORDER  
TO PARE THEM. DESPITE EFFORTS OF GROUP, GUNTER  
OF IMF INSISTS NOT ENOUGH HAS BEEN DONE.  
SPECIFICALLY, GOE HAS NOT RAISED PRICES ON  
COMMODITIES MOVED EARLIER TO PARALLEL MARKET  
RATE OR MOVED ADDITIONAL COMMODITIES TO THAT  
RATE OR RAISED LENDING RATE. GUNTER HAD WARNED  
THAT GOE NEEDS AN AGREEMENT WITH IMF IF IT  
WISHES OUTSIDE ASSISTANCE. EL-SAYEH EXPRESSED  
CONCERN OVER GUNTER'S RIGIDITY. IMF WANTS  
EGYPT MOVE TOO FAST. KAISOUNI AND HIS  
COLLEAGUES BELIEVE POLITICAL CONSIDERATIONS DICTATE MOVING ANY  
ADDITIONAL COMMODITIES TO PARALLEL MARKET RATE OVER THREE  
YEAR PERIOD. NEITHER CABINET NOR PEOPLES ASSEMBLY WILL ACCEPT  
IMF DEMANDS. THEIR ACCEPTANCE, EL-SAYEH ARGUED, WOULD PLAY  
INTO THE HANDS OF THE COMMUNISTS. GOE HAS ALREADY MOVED COM-  
MODITIES VALUED AT APPROXIMATELY LE 1 BILLION TO PARALLE  
MARKET RATE AND IMF NOW WISHES AN ADDITIONAL LE 450 MILLION  
MOVED. EL-SEYAGH ASKED FOR OUR HELP IN "MELLOWING" IMF.  
I TOLD EL-SAYEH WE SHARE VIEW THAT GOE SHOULD WORK OUT MUTUALLY  
ACCEPTABLE AGREEMENT WITH IMF. WE AWARE OF POTENTIAL POLITICAL  
PROBLEMS WHICH MIGHT RESULT FROM IMF RECOMMENDED REFORMS, BUT  
WONDER IF AN EFFECTIVE COMMUNICATIONS EFFORT MAY NOT MAKE THEM  
MORE MANAGEABLE. ALTHOUGH I URGED EL-SAYEH TO DO WHATEVER IS  
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NECESSARY TO ARRIVE AT AGREEMENT WITH IMF, I TOO AM CONCERNED

ABOUT POTENTIALLY ADVERSE POLITICAL EFFECTS OF AN OVERLY  
AMBITIOUS IMF PROGRAM. END SUMMARY.

1. MINECON/ECONCOOP HAMED EL-SAYEH ASKED ME TO CALL  
YESTERDAY. HIS PURPOSE, IT TURNED OUT, WAS TO EXPRESS HIS CONCERN  
ABOUT CURRENT IMF PRESSURE.

2. AFTER RECALLING WORK DONE BY KAISOUNI'S "ECONOMIC GROUP"  
(EG) IN PAST THREE WEEKS TO PARE THE GOVERNMENT AND FX BUDGETS  
FOR 1977, EL-SAYEH OBSERVED GUNTER OF IMF HAS ALSO BEEN APPRISED  
OF "EG'S" ACTIVITIES AND INTENTIONS. EGYPTIANS HAD THOUGHT  
GUNTER WOULD BE HAPPY WITH WHAT WAS BEING DONE. INSTEAD, WHILE  
ACKNOWLEDGING THAT WHAT "EG" HAS DONE IS SUBSTANTIAL, GUNTER  
HAS INSISTED IT IS NOT ENOUGH. SPECIFICALLY, GOE HAD NOT  
INCREASED PRICES ON COMMODITIES IMPORTED BY PUBLIC SECTOR WHICH  
WERE MOVED TO PARALLEL MARKET RATE ON MAY 1. NOR HAD IT YET  
HONORED PRELIMINARY AGREEMENT BETWEEN PRIMIN AND IMF DIRECTOR  
WITTEVEEN OF EARLY THIS YEAR TO MOVE ADDITIONAL COMMODITIES TO  
THE PARALLEL RATE BY THE BEGINNING OF 1977. PREVIOUS GOVERNMENT,  
EL-SAYEH TOLD ME, HAD MOVED COMMODITIES VALUED AT ABOUT LE 1 MILLION

TO PARALLEL RATE, BUT HAD DONE NOTHING TO INCREASE  
THESE PRICES, ABSORBING HIGHER COSTS WITHIN GOE BUDGET.  
INCREASING PRICES NOW ON THOSE COMMODITIES AS WELL AS ON  
ADDITIONAL COMMODITIES ON WHICH THE SUBSIDY IS BEING REDUCED OR  
REMOVED WILL CAUSE A DRASTIC RISE. IT WILL ALMOST CERTAINLY MEAN  
POLITICAL PROBLEMS. ADDITIONALLY, GUNTER HAS COMPLAINED THAT GOE  
HAS NOT RAISED THE DOMESTIC LENDING RATE. "EG", ACCORDING TO  
EL-SAYEH, IS PROPOSING THAT THE PRESENT 40 PERCENT TAX ON  
INTEREST ON DEPOSITS BE DELETED THIS WOULD MEAN AN INCREASE IN  
THE INTEREST RATE OF 5 PERCENT ON SUCH DEPOSITS. GUNTER WANTS  
GOE TO ADD AN ADDITIONAL 2 PERCENT, THEREBY RAISING INTEREST  
RATE TO 7 PERCENT. EL-SAYEH NOTED THIS WILL MEAN AN INCREASE  
IN THE COST OF LENDING (WHICH IS OF COURSE IMF'S INTENTION).

3. EL-SAYEH EXPRESSED CONCERN OVER WHAT HE CALLED GUNTER'S  
"RIGIDITY". GUNTER HAD MADE IT CLEAR THAT GOE NEEDS AN AGREEMENT  
WITH IMF OR NOTHING ELSE WILL HAPPEN. USG, JAPANESE, WEST  
EUROPEANS AND EVEN ARABS WILL NOT HELP UNLESS THERE IS SOME  
AGREEMENT WITH IMF. TWO DAYS AGO GUNTER HAD SOFTENED A BIT.  
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HE HAD INDICATED THAT, IF ALL COMMODITIES (EXCEPT BASIC CONSUMER  
ITEMS) CANNOT BE MOVED TO THE PARALLEL MARKET BY JAN 1, SOME  
SHOULD BE MOVED AND A SCHEDULE WORKED OUT TO MOVE THE REST.  
GUNTER WANTS THE REST MOVED IN SIX MONTHS TIME, WHILE "EG"  
BELIEVES THREE YEARS--I.E., TWO BUDGET CYCLES--ARE NECESSARY TO  
DO SO. GOE CANNOT AT THIS TIME TOLERATE THE HIGH INCREASE IN  
PRICES, WHICH MUST INEVITABLY RESULT FROM ACCEPTANCE OF WHAT  
GUNTER IS PROPOSING. "EG" WILL NEVER BE ABLE TO CONVINCE THE

CABINET, LET ALONE THE PARLIAMENT. ACCEPTANCE OF IMF PROPOSALS, EL-SAYEH ARGUED, IS PLAYING INTO THE HANDS OF THE COMMUNISTS.

4. ASKED FOR DETAILS OF WHAT GOE HAS DONE, EL-SAYEH NOTED THAT GOE IMPORTS APPROXIMATELY LE 2 BILLION WORTH OF COMMODITIES PER YEAR. AS OF NOW, ABOUT LE 1050 MILLION OF THIS TOTAL IS BEING IMPORTED AT PARALLEL MARKET RATE AND ABOUT LE 950 MILLION AT OFFICIAL RATE. OF THE LE 1050 MILLION NOW AT PARALLEL RATE, ABOUT LE 500 MILLION WORTH HAVE BEEN ADDED SINCE JANUARY 1976. ADDITIONAL LE 550 MILLION WERE SHIFTED FROM OFFICIAL TO PARALLEL MARKET RATE ON MAY 1, 1976. OF THE REMAINING LE 950 MILLION STILL AT OFFICIAL RATE, IMF NOW WISHES HAVE AN ADDITIONAL LE 450 MILLION IMMEDIATELY SHIFTED TO THE INCENTIVE RATE. IF IMF RECOMMENDATIONS ARE ACCEPTED, ONLY FOLLOWING ITEMS WOULD REMAIN AT OFFICIAL RATE: UPPLY MATERIALS (WHEAT, FLOUR, EDIBLE OIL, SUGAR, TEA); FERTILIZERS, INSECTICIDE AND SPARE PARTS FOR INSECTICIDE FACTORIES; RAW MATERIALS FOR "POPULAR" GOODS; E.G., TALLOW; RAW MATERIALS AND SPARE PARTS FOR TRANSPORT AND COMMUNICATIONS; MILK FOR HEALTH PROGRAMS; CRUDE OIL AND POL PRODUCTS; CAPITAL GOODS FOR TRANSPORT, COMMUNICATIONS AND PETROLEUM SECTORS.

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C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 17255

EXDIS

5. EL-SAYEH ASKED FOR OUR HELP IN "MELLOWING" IMF. GUNTER MUST UNDERSTAND THAT, WHILE NEW "EG" RECOGNIZES NEED FOR AN AGREEMENT WITH IMF AND IS PREPARED TO GO A LONG WAY, IT CANNOT MOVE AS RAPIDLY AS IMF NOW INSISTS. DOING SO IS POLITICALLY IMPOSSIBLE. KAISOUNI, EL-SAYEH AND MINFIN HAMED WOULD BE FORCED OUT OF OFFICE IF THEY PUSH SUCH A RECOMMENDATION. CABINET MEETS TOMOROW AT WHICH TIME KAISOUNI WILL REPORT ON TALKS WITH IMF. BUT IMF MUST ADOPT A MORE REASONABLE APPROACH.

6. I TOLD EL-SAYEH THAT I DID NOT THINK WE COULD HELP A GREAT DEAL. WE SHARE THE VIEW THAT GOE SHOULD WORK OUT A MUTUALLY ACCEPTABLE AGREEMENT WITH IMF AND HAVE LONG BEEN ENCOURAGING EGYPTIAN MINISTERS TO DO SO. WITHOUT SUCH AN AGREEMENT, OUR EFFORTS TO HELP EGYPT ECONOMICALLY BY ENCOURAGING OTHER DONORS ARE LIKELY TO BE STERILE. AS HE DOUBTLESS KNEW, ONE OF THE MAIN PROBLEMS WHICH GOE FACES TODAY IS A LACK OF CONFIDENCE WHICH HAS DEVELOPED ON THE PART OF MOST OF EGYPT'S FRIENDS, INCLUDING THE ARAB COUNTRIES, OVER THE PAST ECONOMIC MANAGEMENT OF THE COUNTRY. IT IS REGRETTABLE THAT THE PRESENT "EG" IS SUFFERING FROM THE LEGACY OF ITS PREDECESSORS, BUT THIS IS INEVITABLE. WE ARE OF COURSE ALSO AWARE OF POLITICAL PROBLEMS INHERENT IN SOME OF IMF RECOMMENDATIONS, BUT WONDER IF SOME OF THESE MAY NOT BE MORE MANAGEABLE THAN IS SOMETIMES SUGGESTED. AN EFFECTIVE COMMUNICATIONS EFFORT ON THE PART OF THE GOE TO EXPLAIN TO THE EGYPTIAN PEOPLE THE NEED FOR THESE STEPS SHOULD CERTAINLY HELP. I ALSO SUGGESTED THAT EL-SAYEH ARRANGE FOR GUNTER TO MEET THE PRIMIN, WHO COULD EXPRESS HIS POINT OF VIEW. HE AGREED TO DO SO. I URGED THAT "EG" CONTINUE ITS TALKS WITH GUNER WITH A VIEW TO ARRIVING AT SOME MUTUALLY ACCEPTABLE

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AGREEMENT. EL-SAYEH WAS DISAPPOIINTED, BUT INDICATED TALKS WITH GUNTER WILL CONTINUE.

7. COMMENT: PREDICTABLY, CURRENT IMF PRESSURE FOR ECONOMIC REFORM IS MAKING EVEN THE NEW GROUP OF ECONOMIC MINISTERS SQUIRM. I CAN APPRECIATE IMF VIEW THAT GOE MUST ACT DECISIVELY IF ITS ECONOMIC HOUSE IS TO BE PUT IN ORDER. I CAN ALSO APPRECIATE GOE'S DEEP AND NOT UNJUSTIFIED CONCERN ABOUT THE POLITICAL VOLATILITY OF ACCEPTING REFORMS WHOSE NET EFFECT WILL BE A FURTHER INCREASE IN THE COST OF LIVING. THE GREATEST SINGLE PUBLIC COMPLAINT IN EGYPT TODAY IS THE RISE IN THE COST OF LIVING. IT IS DIFFICULT TO ARRIVE AT A JUDGEMENT ON HOW MUCH THE POLITICAL TRAFFIC CAN BEAR IN TERMS OF FURTHER COST OF LIVING RISES. THE GYPTIAN PEOPLE HAVE LONG BEEN KNOWN FOR STOIC PATIENCE, BUT THEY HAVE ALSO HAD RECURRENT FLASH POINTS. WE SHOULD CONTINUE OUR EFFORTS TO SUPPORT THE IMF RECOMMENDATIONS, BUT SHOULD ALSO NOT LOSE SIGHT OF THE POLITICAL CONSIDERATIONS INVOLVED. IT WILL NOT HELP SADAT, THE POLICY OF MODERATION HE ESPOUSES OR THE USG IF, AS A RESULT OF IMF RECOMMENDED REFORMS BASED SOLELY ON ECONOMIC CONSIDERATIONS, A DOMESTIC SITUATION IS CREATED IN WHICH THE ALREADY WIDESPREAD PUBLIC DISCONTENT IS TRANSLATED INTO MASSIVE DEMONSTRATIONS AND THE ARMY HAS TO BE CALLED IN TO SAVE THE SADAT REGIME FROM STREET RIOTERS. GUNTER HAS BEEN FULLY ENGAGED IN MEETINGS WITH EGYPTIAN OFFICIALS AND I HAVE NOT YET HAD A CHANCE TO TALK WITH HIM. HOPE TO DO SO NEXT FEW DAYS AT WHICH TIME WILL TRY TO GET A READING

FROM HIM ON THE CURRENT STATE OF PLAY.  
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